

SIGAR



Testimony

Before the Subcommittee on National Security, Homeland Defense, and Foreign Operations, Committee on Oversight and Government Reform, House of Representatives

Department of Defense Cannot Accurately Account for over \$1.1 Billion in Fuel for the Afghan National Army

Statement of John F. Sopko,

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Mr. Chairman, Ranking Member Tierney, and Members of the Subcommittee,

I am pleased to be here today to discuss the United States' efforts to help the Afghan National Army (ANA) procure, deliver, and account for the petroleum, oil, and lubricants (POL) provided to its forces. I also appreciate the opportunity to discuss our investigative work related to the important issue of fuel delivery in Afghanistan.

For fiscal years 2007-2012, U.S. funding for ANA POL totaled almost \$1.1 billion. SIGAR auditors and investigators have been closely examining this significant investment of resources, both because fuel is a valuable commodity that is vulnerable to theft and because helping the ANA develop a supportable and sustainable logistics capability—including the ability to purchase, track, and account for POL—is an essential part of transferring security responsibilities to the ANA.

In February of this year, SIGAR initiated an audit of efforts by the Combined Security Transition Command – Afghanistan (CSTC-A) to develop the ANA's capability to acquire, distribute, and account for POL supplied to its forces. This audit (1) assesses the status of efforts to develop ANA infrastructure, processes, and systems to acquire, manage, store, and distribute POL and to train the personnel needed to manage and oversee the distribution of POL, and (2) evaluates the internal controls in place to determine if they are sufficient to account for POL and to prevent fraud, waste, and abuse, including the unauthorized diversion or theft of POL.

Based on this ongoing audit work, we have serious concerns that CSTC-A, which is responsible for equipping and training the ANA, has no valid method for estimating fuel needs on which to base funding requests and has incomplete records on the amount of ANA fuel purchased, delivered, and consumed. In fact, CSTC-A was unable to provide us records on nearly \$475 million in fuel payments because, according to CSTC-A officials, these records had been shredded.

The problems we have identified must be resolved quickly because CSTC-A plans to begin transferring responsibility for the procurement, tracking, delivery, and accounting of fuel and other petroleum products to the Afghan government in January 2013—less than 4 months from now. At that time, CSTC-A intends to begin paying for the ANA's fuel—an estimated \$343

million in fiscal year 2013—through direct contributions from the Afghan Security Forces Fund (ASFF) to the Afghan government. In addition, CSTC-A has proposed to increase annual funding for ANA fuel to \$555 million per year—or a total of nearly \$2.8 billion—for fiscal years 2014-2018.¹ If funding levels are not based on accurate needs and if the ANA does not have effective accounting controls in place, this fuel will be at an increased risk of theft and waste.

In May 2012, we alerted CSTC-A officials of our concerns through a formal briefing. Although CSTC-A took some steps to respond to our findings, it did not do enough to ensure that accurate ANA fuel requirements are developed and that effective controls are instituted to maintain proper accountability for fuel purchases, deliveries, and consumption. As a result, we issued an interim report to the Secretary of Defense and other senior officials alerting them to our concerns.² We also released a letter to these officials on the destruction of records, in which we reiterated the importance of retaining all financial documents. This report and alert letter, released earlier this week, are the focus of my testimony today.

We conducted the performance audit work that supports this statement in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The multinational, U.S.-led NATO Training Mission-Afghanistan (NTM-A)/CSTC-A bears primary responsibility for developing the ANA's logistics capability and procuring the fuel for the Afghan security forces. The United States is funding this effort through the ASFF, which Congress established to train, equip, and sustain the ANA and the Afghan National Police forces.

Currently, CSTC-A purchases POL, including diesel, aviation, and other fuels, to power ANA's

¹ Based on this proposal, two-thirds of this amount will be funded through direct ASFF contributions to the Afghan government; fuel under the remaining third will continue to be purchased by CSTC-A. We will address this issue in more depth in our final report.

² SIGAR 12-14, *Interim Report on Afghan National Army Petroleum, Oil, and Lubricants*, 10 September 2012.

vehicles, generators, and power plants.³ Once the fuel is delivered to the ANA, it assumes full responsibility for POL management and further allocation.

The Afghan Ministry of Defense has general guidance and procedures for ANA logistical operations, including POL. The ministry has issued three decrees related to policies, procedures, and forms to be used for ANA POL logistics operations. These decrees are intended to govern ANA fuel management and accountability through, in part, the use of required forms, such as fuel request forms and monthly consumption reports.

In general, the fuel ordering process is designed to work in the following manner: An ANA unit submits a fuel request to its fuel depot. The fuel depot fills the order and, when needed, requests fuel through the Afghan Ministry of Defense's Logistics Command Materials Management Center-Army (MMC-A) to maintain its supply. MMC-A approves the fuel depot's request and submits it to CSTC-A. CSTC-A then reviews the order and submits it to one its four fuel delivery contractors to fill and deliver to the designated ANA location. Once the fuel is delivered, the ANA unit completes a receiving report showing the amount and quality of fuel received and submits that form to both MMC-A and CSTC-A. CSTC-A uses this form, along with the original fuel order, to approve payment to the fuel delivery contractor.

CSTC-A's ability to develop ANA POL capability depends on effective implementation of these required processes to validate the accuracy of data related to fuel orders, issues, receipts, payments, and, ultimately, overall ANA POL requirements.

CSTC-A Lacks an Accurate Method for Estimating ANA Fuel Requirements

SIGAR's auditors have found that CSTC-A does not know the actual fuel funding levels needed to meet ANA mission requirements. CSTC-A's current method for estimating the amount of fuel the ANA needs does not include basic information, such as:

- the actual number or holding capacity of ANA fuel storage locations;
- the inventories of vehicles and generators in use; and
- fuel consumption at each ANA location.

³ The ANA has 30 power plants.

In June 2012, CSTC-A changed its method for determining annual fuel funding levels by estimating ANA fuel requirements for fiscal years 2014-2018 by using historical data from only one month—March 2012. In addition, CSTC-A has based most ANA fuel orders on what the ANA requested, rather than using the monthly consumption forms required under Ministry of Defense decree.

CSTC-A estimated that approximately 754 ANSF locations, including 254 ANA sites, received fuel directly from vendors. However, CSTC-A had no information on whether these locations had sufficient fuel storage capacity to receive vendor deliveries, which would have enabled CSTC-A to know whether locations were accepting more fuel than they could actually store. Although CSTC-A maintains that it used consumption data and rates in developing budget estimates for fiscal years 2012 and 2013, it could not provide documentation showing how much fuel was being consumed at each ANA location. Despite repeated requests, CSTC-A did not provide SIGAR with any information on the number and location of generators or the capacity and consumption of each generator. Without this information, SIGAR could not determine how much fuel ANA generators needed or assess the extent to which generator needs were factored into current estimates of ANA fuel requirements.

Our confidence in CSTC-A's ability to make reasonable estimates of future Afghan fuel needs was further eroded by our discovery that CSTC-A planners responsible for developing fuel estimates had allocated fuel for trailers and other equipment that do not have engines.

In order to accurately estimate ANA fuel requirements, CSTC-A must have accurate information on (1) the ANA locations authorized to receive fuel deliveries, (2) the storage capacity at those locations, and (3) better data about fuel usage requirements, including the amount of fuel consumed at each location.

CSTC-A Cannot Accurately Account for Fuel Ordered, Purchased, Delivered, and Consumed

SIGAR is particularly concerned about the overall lack of accountability for fuel purchased with U.S. reconstruction dollars. No single office within the U.S. or Afghan governments—including CSTC-A's fuel ordering office, the Kabul Regional Contracting Center, and the MMC-A—has

complete records of ANA fuel ordered, purchased, delivered, and consumed. SIGAR auditors identified the following problems:

- CSTC-A did not have any records of fuel purchase and payment information prior to March 2011. According to a CSTC-A official, a predecessor shredded financial records of fuel payments covering the period from October 2006 to February 2011. SIGAR estimates that these records included information about fuel payments totaling nearly \$475 million.
- CSTC-A could not provide more than half of the documents we requested for our audit period from March 2011 to March 2012.⁴ In June 2012, CSTC-A was able to reconcile the ANA fuel purchases with payments for this time period, but it still could not account for the amount of fuel delivered and consumed.
- Controls over fuel ordering did not effectively ensure that the Afghan Ministry of Defense's MMC-A was aware of all fuel orders and able to determine whether any ANA unit received more than its authorized allocation. Although the Afghan Ministry of Defense has procedures requiring ANA units and power plants to (1) document all fuel ordered through regional and national depots, and (2) to submit the documents to the MMC-A for approval, SIGAR found that neither the ANA power plants nor some ANA units follow these procedures. Moreover, CSTC-A has ordered fuel directly from vendors for some units without requiring the ANA to provide fuel orders to the MMC-A. This practice limits CSTC-A's and MMC-A's ability to ensure that units do not receive more fuel than allocated.
- CSTC-A paid vendors without independent verification of the quantity and quality of fuel delivered. Officers ordered fuel, prepared receiving reports for payment, and certified the quantity and quality of fuel received by ANA units without receiving and reviewing the forms required by the Ministry of Defense to validate delivery tickets.
- CSTC-A did not track or reconcile the amount of fuel delivered with the amount of fuel that the ANA issued, stored, and consumed. As a result, CSTC-A cannot identify variances to determine potential theft.

⁴ In fact, in our review of 73 of the 150 paid fuel orders that we received, CSTC-A could only provide a complete set of supporting documentation for 4 fuel orders.

- Fuel vendors did not always comply with the requirements set forth in the fuel blanket purchase agreements used by CSTC-A. For example, vendors did not always provide fuel quality reports. The vendor delivery tickets that accompanied invoices for payment did not always include the information needed to verify the quantity delivered.

In light of our concerns, SIGAR has taken a number of steps. We have alerted the senior leadership at the Department of Defense and the commanders in the field about the destruction of documents and reiterated to all parties the importance of maintaining all financial records. We have also referred this matter to our investigations directorate, which is conducting an inquiry to determine who destroyed the documents and for what reason.

SIGAR is also making two recommendations in the interim audit report to address our concerns about the accuracy of the fuel requirement estimates and the ANA's ability to account for fuel purchases, deliveries, and consumption. Specifically, we recommend that the Commanding General of NTM-A/CSTC-A:

- reduce the fiscal year 2013 and planned 2014-2018 budget requests for fuel for the ANA to the fiscal year 2012 amount of \$306 million and maintain this level until CSTC-A and the ANA have developed a more systematic process for determining requirements; and
- develop, approve, and implement a comprehensive action plan, focusing on specific internal control processes to verify fuel purchases and deliveries to improve overall fuel accountability.

In commenting on a draft of our report, CSTC-A concurred with our recommendation to develop, approve, and implement a comprehensive action plan, but disagreed with our recommendation to limit budget requests for fuel until it has developed a more systematic process for determining fuel requirements. NTM-A/CSTC-A also noted steps it has taken, or will take, to address specific internal control processes to verify fuel purchases and deliveries and to improve overall accountability.

In disagreeing with our recommendation to postpone increasing fuel funding requests until it can determine fuel requirements more systematically, NTM-A/CSTC-A stated that the proposed funding levels must be maintained to sustain current military operations. According to CSTC-A,

the fiscal year 2012 fuel expenditures for the ANA are expected to total approximately \$480 million.⁵ It stated that imposing SIGAR's \$306 million cap would result in a 37 percent reduction for all security operations. It also said it cannot accurately estimate fuel consumption for vehicle usage due to the fielding of additional vehicles, power generation plants, and other combustion engine power equipment to Afghan security forces and because of fluctuations in power consumption due to seasonal changes.

SIGAR does not believe it is prudent to increase estimated fuel requirements in the absence of actual fuel consumption and usage data. In addition, SIGAR notes that CSTC-A did not commit the first \$40 million of the fiscal year 2012 funds for fuel and other petroleum products until July 2012, more than 9 months into the current fiscal year. This delay in spending further calls into question whether a budget increase in ANA fuel for fiscal year 2013 is warranted, especially given expected donations by international donors for jet fuel and kerosene.

SIGAR plans to issue the final audit report in the coming months. We have also just announced a new audit to assess CSTC-A's efforts to develop the Afghan National Police's ability to procure, deliver, and account for POL for its forces.

SIGAR Has Ongoing Investigations into the Theft and Diversion of Fuel in Afghanistan

In addition to our ongoing audit work, SIGAR is currently conducting 20 criminal investigations involving the theft and diversion of fuel intended for both military and civilian use. These investigations address bribery, corruption, and bid-rigging related to contracts to transport more than \$100 million worth of fuel. They involve Afghan citizens, Afghan companies, and Defense Department civilians, as well as military officers and noncommissioned officers involved in the fuel transportation, storage, and distribution chain.

To date, we have obtained guilty pleas from six U.S. citizens for bribery or corruption related to fuel theft. SIGAR investigators are working closely with Afghan law enforcement officials to detect and deter fuel theft. These efforts have led to the arrest of nine Afghan citizens. SIGAR has also recommended that 13 companies and individuals associated with fuel procurement and transport be suspended or debarred for corruption, bid-rigging, or theft of fuel.

⁵Our analysis shows, however, that this figure includes fuel purchased for both the ANA and the Afghan National Police.

SIGAR's investigators collaborate with partner agencies in the International Contract Corruption Task Force and with the military's Task Force 2010 to strengthen accountability in the fuel distribution system, identify weaknesses, and recover monies from corrupt individuals and companies.

Conclusion

Our audit and investigative work shows that managing the procurement and distribution of fuel, which is absolutely essential to the reconstruction of Afghanistan, is a large, complex challenge. Millions of gallons of fuel can disappear before anyone notices. In one case, SIGAR discovered that as much as one million gallons of fuel had been stolen over a four-month period without causing any red flags to be raised in the system.

No single commodity is as important to the reconstruction effort in Afghanistan as fuel, and no commodity is at such risk of being stolen or wasted. As the U.S. and its coalition allies withdraw and transfer security responsibility to Afghan forces, U.S.-funded fuel will become even more vulnerable to waste through corruption and theft. It is imperative that United States military and civilian authorities take steps to better protect the U.S. taxpayer's continuing investment in fuel.

Accordingly, we strongly urge CSTC-A not to proceed with its plans to increase POL funding for the ANA and to write a "blank check" to the Afghan government for its fuel needs through direct contributions from the ASFF to the Afghan Ministry of Defense. To do so would mean doubling down on a very risky bet.

John F. Sopko Special Inspector General for Afghanistan Reconstruction

John F. Sopko was sworn in as Special Inspector General for Afghanistan Reconstruction on July 2, 2012. Mr. Sopko, appointed to the post by President Obama, has more than 30 years of experience in oversight and investigations as a prosecutor, congressional counsel and senior federal government advisor.

Mr. Sopko came to SIGAR from Akin Gump Strauss Hauer & Feld LLP, an international law firm headquartered in Washington, D.C., where he had been a partner since 2009.

Mr. Sopko's government experience includes over 20 years on Capitol Hill, where he held key positions in both the Senate and House of Representatives. He served on the staffs of the House Committee on Energy and Commerce, the Select Committee on Homeland Security and the Senate Permanent Subcommittee on Investigations.



In his most recent congressional post, Mr. Sopko was Chief Counsel for Oversight and Investigations for the House Committee on Energy and Commerce, chaired by Rep. John D. Dingell (D-Mich.), during the 110th Congress. There, he supervised several investigations focused on matters regulated by the Food and Drug Administration, Department of Energy, Department of Commerce, Federal Communications Commission, Federal Energy Regulatory Commission, U.S. Commodity Futures Trading Commission and Consumer Product Safety Commission.

Mr. Sopko also served as General Counsel and Chief Oversight Counsel for the House Select Committee on Homeland Security, where he focused on homeland security and counter-terrorism investigations and issues.

At the Senate Subcommittee on Investigations, chaired by then-Sen. Sam Nunn (D-Ga.), Mr. Sopko conducted investigations on a broad range of issues, from healthcare insurance to complex weapons systems. From 1982 to 1997, Mr. Sopko led investigations for the chairman and subcommittee members that included a multi-year investigation related to health insurance; union infiltration by organized crime; protection of critical infrastructure; the potential spread of weapons of mass destruction in the former Soviet Union and elsewhere; enforcement of the Foreign Corrupt Practices Act; cybersecurity; international drug interdiction programs; counter-terrorism policies and procedures; government procurement fraud and the illegal export of dual-use technologies.

After his work in the Senate, Mr. Sopko was recruited by the Commerce Secretary to manage to department's response to multiple congressional, grand jury and press inquiries. While at the Commerce Department, Mr. Sopko was named Deputy Assistant Secretary for Enforcement for the Bureau of Export Administration, and Deputy Assistant Secretary for the National Telecommunications and Information Administration.

Mr. Sopko previously served as a state and federal prosecutor. As a trial attorney with the U.S. Department of Justice Organized Crime and Racketeering Section, he conducted numerous long-term grand jury investigations and prosecutions against organized crime groups. He was the lead attorney in the first successful federal RICO prosecution of the entire leadership structure of an American La Cosa Nostra crime family. In 1982 he received the Justice Department's Special Commendation Award for Outstanding Service to the Criminal Division, and in 1980 he received the department's Special Achievement Award for Sustained Superior Performance.

Mr. Sopko began his professional career as a state prosecutor in Dayton, Ohio, with the Montgomery County prosecutor's office. He served as an adjunct professor at American University's School of Justice, where he received the Outstanding Adjunct Faculty Teaching Award in 1984 and the Professor of the Year Award in 1986. He received his bachelor's degree from the University of Pennsylvania in 1974, and his law degree from Case Western University School of Law in 1977. He is a member of the bars of Ohio and the District of Columbia.